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Supreme Court, U. S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

~~No. 71-1700~~

SPERRY RAND CORPORATION,
A Delaware Corporation,
Petitioner,

—versus—

A-T-O, INC. (formerly "AUTOMATIC" SPRINKLER CORPORATION OF AMERICA), an Ohio Corporation, ELECTRONIC CONCEPTS, INC., a Virginia Corporation, JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR.,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

SPERRY RAND CORPORATION, a Delaware corporation, *Petitioner* v. A-T-O, INC. (formerly "AUTOMATIC" SPRINKLER CORPORATION OF AMERICA), an Ohio corporation, ELECTRONIC CONCEPTS, INC., a Virginia corporation, JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR., *Respondents.*	No. 71-990

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

Sperry Rand Corporation, petitioner herein, respectfully prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Fourth Circuit entered on September 7, 1971, affirming in part and vacating and remanding in part the judgment of the United States District Court for the Eastern District of Virginia, at Richmond.

OPINIONS BELOW

The opinion of the District Court is reported at 325 F. Supp. 1209 (E. D. Va. 1970) *sub nom. Sperry Rand Corporation* v. *Electronic Concepts, Inc., et als,* and ap-

pears in Appendix A, *infra, p.* A-1, together with the judgment of that court, *p.* A-21. The opinion of the Court of Appeals for the Fourth Circuit, 447 F. 2d 1387, (4th Cir. 1971), appears in Appendix B, *infra, p.* B-1, together with that Court's judgment, *p.* B-15.

JURISDICTION

The judgment of the United States Court of Appeals for the Fourth Circuit was entered on September 7, 1971. Thereafter on September 30, 1971, Sperry petitioned for rehearing. On October 1, 1971, respondents petitioned for rehearing. On October 8, the Court of Appeals ordered the parties to file answers to those petitions by October 18, 1971. Neither of those limited petitions for rehearing concerned the issue as to which petitioner seeks certiorari. Both petitions were apparently acted on in November, but the order denying rehearing was not filed in the Clerk's office and communicated to the parties until April 11, 1972, Appendix B, *p.* B-16. Because of this delay, plaintiff sought and was granted by this Court an extension of the time within which to file for certiorari on November 17, 1971, "without prejudice to petitioner's contention that the time for filing the petition begins to run only at such time as the Court of Appeals for the Fourth Circuit makes its final decision on petitioner's petition for a rehearing." (Docket No. A-514). When this extension was about to expire, on February 4, 1972, the plaintiff filed a petition for certiorari. The defendants filed a response claiming that the petition was premature and the petition was denied on March 27, 1972, before the Court of Appeals entered the order denying the petitions for rehearing. With the entry of said order, the plaintiff is now clearly entitled to seek certiorari, and the jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

The prior petition is substantially reprinted here with some modifications to reflect subsequent developments in the law.

QUESTION PRESENTED FOR REVIEW

Should the federal courts be deprived of their historic equity power to award counsel fees as costs to a prevailing party in a diversity case?

STATEMENT OF THE CASE

Sperry Rand Corporation ("Sperry"), sued two former employees, Zentmeyer and Tebell, and Zentmeyer's corporation, Electronic Concepts, Inc. ("ECI"),* for theft of trade secrets including drawings, documents, and other information, and for unlawfully obtaining information concerning the amount of Sperry's sealed bid on a government contract. Federal jurisdiction is based on diversity of citizenship of the parties, 28 U.S.C. § 1332.

The trial court found** that defendants Zentmeyer and Tebell were former key employees of Sperry, engaged in the development of a new marine radar known as the AN/SPS-53, and in particular in the design of a slotted-array antenna for that radar. Zentmeyer left Sperry taking with him Sperry's secret manufacturing drawing for the antenna, together with numerous other similar drawings, documents, data and materials having substantial commercial value. Later when the Coast Guard sought competitive bids for this radar Zentmeyer surreptitiously ob-

*During the pendency of the litigation, Automatic Sprinkler Corporation of America (now called ATO Inc.) acquired the assets and assumed the liabilities of ECI, including, specifically, liabilities arising out of this lawsuit.

**The trial court's findings are set forth in detail in its Opinion, Appendix A, *infra*.

tained from Tebell the amount of Sperry's proposed bid and other valuable information which enabled Zentmeyer's company, ECI, to underbid Sperry and obtain a $900,000 Coast Guard radar contract. Tebell immediately left Sperry and joined Zentmeyer and ECI and assisted them in producing the radars using the stolen Sperry drawings and other secret information taken from Sperry. Shortly thereafter Sperry learned of the bid theft from an ex-ECI employee and commenced this action.

The Court found repeated acts of knowing and deliberate misappropriation, unfair competition, and malicious disregard for the rights of the plaintiff Sperry, resulting in very serious injury. In addition to the aggravated misconduct which gave rise to Sperry's claim, the defendants continued to conceal the true facts concerning their activities by falsehood and fabrication throughout more than two years of intensive pretrial discovery and a five-week court trial without a jury. The court noted that some 10,000 pages of depositions had been required, that counsel for plaintiff were forced to expend approximately 10,000 man-hours just in preparation for the trial, and that even during the trial the defendants and their witnesses testified falsely and evasively with respect to their acts of misappropriation of Sperry data, and the manner in which they allegedly prepared their own bid on the stolen contract.

The court granted injunctive relief and awarded compensatory damages of $406,012, punitive damages of $185,000 and attorneys' fees of $225,000.

The trial court was expressly aware of the general rule that attorneys' fees are not recoverable except in extraordinary cases, such as those involving "oppressive, vexatious conduct", where "the federal courts have authority as a part of their historic equity jurisdiction to award counsel fees". The trial court was equally emphatic that this was just such an extraordinary case, finding that "The acts of the de-

fendants were willful and deliberate and were committed with the knowledge that they were unlawful and were calculated to result in substantial harm to the plaintiff." Appendix A, p. A-17. The court concluded:

> "In view of the finding by the Court of clear, cogent, and convincing evidence of the oppressive and bad faith conduct of the defendants . . . justice could not be served without the award of counsel fees;" Appendix A, p. A-18.

The Court of Appeals affirmed the District Court on the merits, but vacated the award of attorneys' fees on the ground that this remedy was controlled exclusively by state law, saying, "We think that Virginia would treat this case within the general rule denying counsel fees and not within one of the exceptions." Appendix B, p. B-12.

REASONS FOR GRANTING WRIT

In holding that the District Court may not invoke its historic equitable power to award attorneys' fees in a diversity case, but must be governed by state law, the Fourth Circuit's decision:

1. Conflicts with the principle announced by this Court in *Guaranty Trust Co.* v. *York,* 326 U. S. 99 (1945);

2. Conflicts with the holdings of decisions in other Circuits; and

3. Presents an important question of federal law and procedure which has not been, but should be, settled by this Court.

(a) Conflict with Guaranty Trust Co. v. York

In *Guaranty Trust Co.* v. *York,* 326 U. S. 99, 105, 106 (1945) this Court stated that the historic federal equitable

remedies were available to federal courts even where jurisdiction was based solely on diversity of citizenship. Amplifying its prior holding in *Erie R. Co.* v. *Tompkins,* 304 U. S. 64 (1938), this Court held in *Guaranty Trust* that:

> "State law cannot define the remedies which a federal court must give simply because a federal court in diversity jurisdiction is available as an alternative tribunal to the State's courts. Contrariwise, a federal court may afford an equitable remedy for a substantive right recognized by a state even though a State court cannot give it." 326 U. S. at 106.

Thus, in diversity cases, state law determines the existence of substantive rights. As to remedies, the federal courts are free to apply not only state-created remedies, but also their own inherent equitable remedies as the interests of justice may require, even though this can produce a result in the federal court different from that obtainable in the state court. 326 U. S. at 106-108.

To illustrate its point about equitable remedies being governed by the federal and not state law, this Court (*Guaranty Trust Co.* v. *York,* 326 U. S. at 105) cited *Sprague* v. *Ticonic National Bank,* 307 U. S. 161, 164 (1939), the leading case on the "historic equity jurisdiction" of the federal courts to award "counsel fees and other expenses entailed by the litigation not included in the ordinary taxable costs recognized by statute."

Accordingly, the decision of the court below that state law governs the question of whether attorneys' fees may be awarded to a prevailing party seems to conflict squarely with the holding of this Court in *Guaranty Trust Co.* v. *York,* that such equitable remedies are governed by federal law in a diversity case.

(b) Conflict Among the Circuits

The First, Sixth, Seventh, Eighth, Ninth and Tenth Circuits have followed this Court's formula in *Guaranty Trust Co.* in diversity cases and either awarded attorneys' fees or said they could be awarded under the rule in *Sprague* v. *Ticonic,* without regard to state law. *Angoff* v. *Goldfine,* 270 F. 2d 185 (1st Cir. 1959); *Cleveland* v. *Second Nat. Bank & Trust Co.,* 149 F. 2d 466 (6th Cir. 1945), *cert. den.* 326 U. S. 775 (1945); *First Nat. Bank & Trust Co.* v. *Village of Skokie,* 190 F. 2d 791 (7th Cir. 1951), *cert. den.* 342 U. S. 909 (1952) (auditors' fees; reference to attorneys fees by dictum); *Mercantile-Commerce B. & T. Co.* v. *S. E. Arkansas L. Dist.,* 106 F. 2d 966, 971 (8th Cir. 1939); *National Van Lines* v. *Dean,* 237 F. 2d 688, 694 (9th Cir. 1956); *Bank of China* v. *Wells Fargo Bank & Union Trust Co.,* 209 F. 2d 467, 476 (9th Cir. 1953) (recognizing that California state law would be contrary); *Brisacher* v. *Tracy-Collins Trust Co., 277* F. 2d 519 (10th Cir. 1960) (dictum). District Courts in the Second and Third Circuits have followed the rule. *Austrian* v. *Williams,* 120 F. Supp. 900, 906 (S. D. N. Y. 1953), *rev'd on other grounds,* 216 F. 2d 278, 282 (2nd Cir. 1954), *cert. den.* 348 U. S. 953 (1955) (awarding attorneys' fees under *Sprague* v. *Ticonic* while noting that such an award would not be permitted under state law); *Singer Mfg. Co.* v. *Singer Upholstering & Sewing Co.,* 130 F. Supp. 205, 208 (W. D. Pa. 1955).

Some of these cases awarded fees because a fund had been created or protected; others awarded fees based on the conduct of the litigants. All agreed that federal courts can, in a diversity case, make an award of counsel fees where exceptional circumstances warrant.

On the other hand the Fifth Circuit in *Areosonic Corporation* v. *Trodyne Corporation,* 402 F. 2d 223 (5th Cir. 1968) has gone the opposite way, holding that *Sprague* v.

Ticonic is inapplicable in diversity cases, and that the federal court's power to award attorneys' fees in such cases is controlled exclusively by state law. A Seventh Circuit case decided prior to *First Nat. Bank & Trust Co.* v. *Village of Skokie, supra, Trust Co. of Chicago* v. *National Surety Corporation,* 177 F. 2d 816 (7th Cir. 1949), and a scattering of district court decisions adopt the same view. The Fourth Circuit has, in the present case, now joined these courts, thereby deepening the conflict among the Circuits.

The most recent decision involving this issue is *Forest Laboratories, Inc.* v. *Pillsbury Company,* 452 F. 2d 621 (7th Cir. 1971), decided last December, which held that, "In the absence of any overriding federal policy to the contrary," state law would govern the award of attorneys' fees in a trade secret case. Merely winning such a case did not establish for the prevailing party those "overriding considerations of justice" which would invoke the federal power to award attorneys' fees. 452 F. 2d at 628. This decision appears to fall somewhere in between the holdings in *Aerosonic Corporation* and the decision below in this case on the one hand, and the decisions previously cited from the First, Sixth, Seventh, Eighth, Ninth, and Tenth Circuits on the other. In the present case, of course, we claim, and the District Court found, that there were such overriding considerations of justice as to invoke the federal power.

(c) The Importance of Resolving this Federal Question

Three times in the past this Court has granted certiorari to resolve whether or not in a given situation the federal courts have authority to award attorneys' fees. *Sprague* v. *Ticonic Bank, supra; Vaughan* v. *Atkinson,* 369 U. S. 527 (1962) (holding attorneys' fees allowable in admiralty); *Fleischman* v. *Maier Brewing Co.,* 386 U. S. 714 (1967) (holding attorneys' fees not allowable under the Lanham Act). None of those cases involved

diversity jurisdiction. Meanwhile the confusion as to the availability of the federal remedy in diversity cases worsens. The power to award attorneys' fees as a sanction against a lawless litigant is important to the administration of justice. We submit that certiorari should be granted to resolve the question of whether the federal courts are shorn of this historic equity power in a diversity case.

FEDERAL LAW SHOULD DETERMINE WHETHER ATTORNEYS' FEES ARE TO BE AWARDED AS COSTS TO THE PREVAILING PARTY IN A DIVERSITY CASE

Sprague v. *Ticonic National Bank, supra,* is the leading case on the historic equity power of the federal courts to allow the prevailing party to recover counsel fees and other litigation expenses as costs "in exceptional cases and for dominating reasons of justice." (307 U. S. at 167). The Court held that the question of whether to award counsel fees to the prevailing party was not one of the substantive issues necessarily encompassed in the judgment on the merits of the case but was a special item of costs which could be determined after judgment. (307 U. S. at 168-9).

This power, first used to award attorneys' fees from a fund where the attorneys' efforts enriched the fund, has also uniformly been held to authorize, in extraordinary cases, attorneys' fees as costs to the prevailing party where there has been vexatious, fraudulent or deliberate misconduct, whether before or during the litigation. *Universal Oil Co.* v. *Root Rfg. Co.,* 328 U. S. 575, 580 (1946); *Newman* v. *Piggie Park Enterprises,* 390 U. S. 400, 402, n. 4 (1968); *First National Bank* v. *Village of Skokie, supra; Cleveland* v. *Second National Bank and Trust Co. supra; National Van Lines* v. *Dean, supra; Austrian* v. *Williams, supra; Rolax* v. *Atlantic Coast Line R. Co.,* 186 F. 2d 473

(4th Cir. 1951); *Schauffler* v. *United Association of Journeymen, Etc.*, 246 F. 2d 867 (3rd Cir. 1957); *Local No. 149* v. *American Brake Shoe Co.*, 298 F. 2d 212, 215 (4th Cir. 1962), *cert. den.* 369 U. S. 873 (1962).

This unbroken line of decisions authorizes attorneys' fees on the basis of *Sprague* in the case of flagrant misconduct. The nature of the conduct is the essential element; the subject matter of the litigation is irrelevant. Plaintiff is not claiming any "general federal rule or policy favoring an award of attorneys' fees in trade secrets cases" (See *Forest Laboratories, Inc.* v. *Pillsbury Company, supra*), but only the power of the federal courts to award such fees in those exceptional cases where overriding considerations of justice require it.

There seems to be no dispute about the fact that the taxation of ordinary costs in the federal courts is governed by federal law. 3 Barron and Holtzoff, *Federal Practice and Procedure (Wright Ed. 1958)* § 1195, p. 43. Federal courts in diversity cases frequently award costs in situations where they would not be recoverable in state courts, and in doing so have held that federal law rather than state law determines the award of costs. *Erving Paper Mills* v. *Hudson-Sharp*, 271 F. Supp. 1017, 1023 (E. D. Wis. 1967); *Brown* v. *Consolidated Fisheries Company*, 18 F. R. D. 433, 435 (D. Del. 1955); *Mercantile-Commerce B. & T. Co.* v. *S. E. Arkansas L. Dist.*, 106 F. 2d 966, 971 (8th Cir. 1939); *Dept. of Highways* v. *McWilliams Dredging Co.*, 10 F. R. D. 107 (W. D. La. 1950), *aff'd sub. nom. McWilliams Dredging Co.* v. *Dept. of Highways*, 187 F. 2d 61 (5th Cir. 1951).

Notwithstanding the general rule that costs are governed by federal law and the clear recognition in *Sprague* v. *Ticonic National Bank* that attorneys' fees are costs rather than an element of damages, the Court of Appeals looked solely to Virginia law to determine whether counsel fees

should have been awarded. The only authority cited to support its decision to apply Virginia law was a statement of Professor Moore to the effect that state law should be followed in awarding attorneys' fees where a substantial policy of the state either supports or opposes the award, unless that policy runs counter to a federal statute or rule of court. 6 *Moore's Federal Practice,* ¶54.77[2], p. 1354; Appendix B, p. B-11. In fact none of the cases cited by Professor Moore support the proposition that a federal court in a diversity case may not invoke its equity power to award attorneys' fees in cases of vexatious or bad faith conduct. 6 *Moore's Federal Practice, supra,* p. 1354 n. 20.*

There are important reasons why state law or policy should not limit the power of the federal courts by precluding an award of counsel fees as costs where federal precedent calls for such an award:

> *First,* federal law only permits an award of attorneys' fees in an exceptional case and for compelling reasons of justice. Where such reasons exist the federal court's hands should not be tied merely because state remedies are inadequate to meet the exigencies of the situation. *Guaranty Trust Co.* v. *York,* 326 U. S. 99, 105 (1945) [citing, particularly, *Payne* v. *Hook,* 74 U. S. (7 Wall.) 425, 430 (1868), holding that federal equitable remedies are uniform throughout the states and not modified to meet local law.]
>
> *Second,* state law is frequently silent or unclear as to whether attorneys' fees should be awarded because of the misconduct of a litigant. To hold that state law

*At p. 1354, n. 21, Moore cites cases in which a state statute required or authorized an award of attorneys' fees. Some of the statutes created substantive rights; others were followed as a matter of practical usage. None of the cases suggests that state law could preclude a federal court from awarding attorneys' fees where justice required.

is controlling invites needless confusion. Thus in the present case a proper award of counsel fees was reversed on sheer speculation as to what a Virginia court would have done on the same facts. Appendix B, p. B-12.

Third, and most important, the power to award counsel fees based on the lawlessness of one of the litigants is essential to the orderly administration of justice. *Schauffler* v. *United Association of Journeymen, etc.,* 246 F. 2d 867, 870 (3rd Cir. 1957). "On a matter so intimately related to judicial administration the forum will follow its own policy." *Conte* v. *Flota Mercante Del Estado,* 277 F. 2d 664, 672 (2d Cir. 1960) [admiralty case].

We submit that this case clearly demonstrates the need for the federal courts to retain their historic equity power to award counsel fees. The misconduct which prompted the bringing of this action was particularly flagrant and deliberate. Thereafter, from the commencement of the litigation through the last day of trial, the defendants repeatedly concealed the true facts through false testimony, distortion and misrepresentation. The necessary consequence was to force Sperry to take and re-take vast amounts of testimony before and during the trial until, bit by bit, the true facts were brought to light. This required Sperry to expend many times more in counsel fees than would otherwise have been necessary to elicit the truth and vindicate its rights. A very great burden was at the same time thrust upon the District Court, which was required to sift through and evaluate reams of evidence which might otherwise have been avoided.

The Court of Appeals did not take issue with the trial court's conclusion that "justice could not be served without the award of counsel fees." Appendix A, p. A-18. The amount of the award (less than half of plaintiff's actual ex-

pense) is not at issue, though it indicates the seriousness of defendants' misconduct before the trial court. The sole issue is whether that court had the power to make any award of counsel fees at all.

The policy reasons for permitting a court to award attorneys' fees in exceptional cases are rooted in the need of the courts to control the behavior of litigants. Everyone has a right to his day in court. However, a federal court should not be required to permit anyone fraudulently or in bad faith to consume the time of the court and run up the expenses of other parties and counsel with no justification. With today's overcrowded dockets the need for this control has never been greater.

The award of attorneys' fees to a prevailing party is particularly appropriate in cases of this type since it bears a direct relation to the misconduct and reimburses the prevailing party for an expenditure which he was forced to make solely as a result of that misconduct. Recognizing the need for this remedy this Court revised Rules 37(a)(4) of the Federal Rules of Civil Procedure effective July 1, 1970, to encourage the federal courts to award litigation expenses including attorneys' fees where a refusal to disclose in discovery proceedings is without substantial justification. Because misconduct often far transcends discovery proceedings, the federal district courts have found a great need in diversity cases for their historic equity power to award attorneys' fees where justice requires. *Cleveland* v. *Second National Bank & Trust Co., supra; Carter Products, Inc.* v. *Colgate-Palmolive Co.*, 214 F. Supp. 383, 414 (D. Md. 1963).

Vexatious conduct which burdens the federal courts is no less oppressive because it happens to be a state-created right rather than a federally-created right whose enforcement is sought. For precisely that reason this court in *Guaranty Trust Co.* v. *York, supra,* classified the historic

equity power to award attorneys' fees described in *Sprague* v. *Ticonic* as a "remedy" rather than a "substantive right," and asserted its availability in diversity cases. That language should now be clearly held the law of the land, and the contradictory decision of the court below in this case reversed.

CONCLUSION

Because this case presents a conflict with prior decisions of this Court as well as other circuits on a question of overriding importance to the orderly administration of justice in the federal courts, we respectfully urge this Court to grant certiorari.

Respectfully submitted,

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June 26, 1972

Appendix A

IN THE
UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
CHARLOTTESVILLE DIVISION

SPERRY RAND CORPORATION, a Delaware corporation v. ELECTRONIC CONCEPTS, INCORPORATED, a Virginia corporation, JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR.	Formerly RICHMOND CIVIL ACTION No. 5241 Now Charlottesville CIVIL ACTION No.

MEMORANDUM

This matter, tried before the Court without a jury, is an action in which the plaintiff seeks damages and injunctive relief. Jurisdiction of the Court is based upon diversity of citizenship of the parties, 28 U. S. C. § 1332. The amount in controversy exceeds the sum or value of Ten Thousand ($10,000.00) Dollars, exclusive of interest and costs; and the Court finds diversity of citizenship exists between the plaintiff and each of the defendants.

In the interest of brevity, the plaintiff hereinafter will be referred to as "Sperry;" the corporate defendant, Electronic Concepts, Incorporated, as ECI; and the corporate defendant, Automatic Sprinkler Corporation of America, as "Automatic."

The plaintiff corporation is a Delaware corporation with its principal place of business in the State of New

York and with a division of its corporation, which is engaged in design, development, manufacture and sale of electronic equipment, including radar, for military and commercial use, being located in Charlottesville, Virginia.

Defendants Zentmeyer and Tebell are residents and citizens of the State of Virginia; corporate defendant, ECI, was a Virginia corporation organized in 1963, which was engaged in the design and manufacture of electronic equipment and up to the middle of 1966 made no radar or radar antennae, but ultimately became a competitor of Sperry in the field of military radar.

During the pendency of this suit, Automatic purchased the assets of ECI and assumed its liabilities, if any, by reason of this suit. ECI was thereafter dissolved, and its manufacturing operation, which was and is located in Charlottesville, Virginia, was designated as a division of Automatic Sprinkler Corporation of America, a corporation whose name was changed in October 1969 to A-T-O, Inc. Automatic was, by agreement, made a party defendant to this action.

The joint answers of defendants have been designated as affirmative defenses alleging, in effect, that this action is brought by plaintiff as a part of a policy to injure ECI in its trade and business. The Court finds no credible evidence in support of this allegation, which makes unnecessary any further reference to the designated affirmative defenses.

The gist of plaintiff's allegations is contained in a two count complaint in which, under Count 1, Sperry alleges that certain confidential information and materials, proprietary in character and in the nature of trade secrets, were improperly obtained and utilized by the defendants for the benefit of ECI in its competition with Sperry. More specifically, under this count Sperry contends that from October

1956 to the time of the institution of this suit it, through the expenditure of large amounts of time, effort and money, developed certain items, manufacturing processes, techniques, data, etc., relating to the design, development, manufacture and sale of certain electronic equipment, and that the defendants (the individuals being former employees now employed by the corporate defendants) wrongfully acquired certain materials and information which were the trade secrets of Sperry and disclosed same to ECI, all to the damage of Sperry and to the wrongful gain of ECI. Count 2, while in the nature of a similar allegation, specifically charges defendants with conspiring to and wrongfully obtaining a certain trade secret in the nature of secret and confidential information pertaining to the contents of a bid for a contract to manufacture certain radar equipment. Plaintiff alleges further that said bid information was used by the defendants to its damage and to their wrongful gain.

In the interest of continuity, the Court will first address itself to the alleged confidential, proprietary information and materials in the nature of a trade secret, and defendants' alleged misconduct in connection therewith, as disclosed by the evidence received in support of plaintiff's allegations as contained in Count 1.

The matters in dispute under Count 1 have to do primarily with trade secrets concerning the design and manufacture of a slotted array type antenna for use in radar.

Background

Sperry, at the time of the alleged misconduct as well as at the time of trial, maintained a division and plant in Charlottesville, Virginia, wherein each of the individual

defendants was at one time or another employed. Zentmeyer, a graduate engineer, was employed by Sperry in 1959, as a junior engineer. Tebell, also a graduate engineer, worked for the plaintiff as a part-time engineering aide in 1958, and became a Sperry engineer in the early part of 1959, his primary function being in radar production as distinguished from design. Zentmeyer's work was primarily in design. Both individuals had graduated from the same engineering school, and each ultimately left Sperry's employ for employment with the defendant, ECI.

Radar is an electronic concept which has been in use for more than thirty years. Simply stated, a transmitter generates and broadcasts a microwave pulsed beam signal, which upon contact with objects in its path reflects signals back to the transmitter, which signals are received through the same equipment and usually amplified and displayed in visual form on a cathode ray tube, which enables the operator to determine the size, distance and movement of the objects detected.

Prior to 1960, Sperry and others in the marine radar field were primarily using parabolic reflector and pillbox type antennae. These antennae were bulky and evidenced operational difficulties. An attempt was commenced to reduce the weight of these bulky antennae, which weight was more than three times the weight of Sperry's ultimately produced slotted array antennae.

Zentmeyer, at the time he was employed by Sperry, did not possess any significant experience in the design, development or manufacture of radar equipment. About the time of Zentmeyer's employment, which was in January of 1959, Sperry began research into the development of a slotted array type antennae and Zentmeyer, along with others, performed the initial work and was primarily responsible for

the Sperry slotted array program up until his departure from their employ.

A slotted array antenna consists of a precision-made hollow metal bar, known as the waveguide, with slots cut along its length through which microwave electronic energy is emitted. The energy is fed into one end of the waveguide and is emitted through the slots in such a pattern that it is focused in a main beam, or lobe. The amount of power emitted by each slot in the waveguide is controlled by its angle of tilt, which in turn is geared to the amount of power remaining in the antenna at the point at which the slot is located along the length of the waveguide. The objective of the designer is to control the power distribution along the length of the antenna in such a way as to produce the desired beam characteristics. To achieve this objective, the arrangement of the slots, including their angle, spacing, width, depth and the tolerances within which they are machined are all critical.

In the initial development, in which Zentmeyer participated, an effort was made to generate formulae and mathematical approaches to the solution of the problems facing them. Much experimentaton and trial and error was carried out in an effort to produce a successful array, including the cutting and testing of numbers of slotted arrays.

The performance of the antenna developed showed great improvement over any previous Sperry Marine antenna.

During 1961 and 1962, Zentmeyer continued to direct the development of the slotted array utilizing the Taylor Distribution Formula, a formula well known to engineers. The utilization of the Taylor Formula was made in conjunction with a computed program devised by Zentmeyer as an aid to his design effort.

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In determining the angle at which each slot in a proposed slotted array antenna was to be cut, Zentmeyer utilized the Taylor Distribution Formula for the purpose of pro-rating the amount of radiation that takes place from each slot, to the end that the array would meet the side lobe requirements as might be specified. The center slots in an array radiate more strongly than the end slots, and since the power coupled out of the wave guide by the slot is a function of the angle, it was necessary for Zentmeyer, as an engineer, to select the distribution function first and then convert same to a slot angle. There are a number of distribution formulas utilized for this purpose, although generally that distribution which is ordinarily considered to be optimum in over-all is a general class of distribution known as the Taylor distributions, in which the Taylor distribution function gives one the amount of energy that he may wish radiated from each slot. It is then the engineer's function to convert the energy or power into an expression in terms of slot angles, and it is generally called the slot conductance. Conductance is essentially the measure of the relative amount of power taken from the wave guide by a particular slot. It then becomes necessary, in the design of a slotted array antenna, for an engineer to have an equation which relates conductance to slot angle. There are formulas containing unknown quantities which engineers use, as Zentmeyer did. Ascertaining the unknown quantities is generally accomplished by cutting and testing. One would, as Zentmeyer did, cut a number of test sections having different angles and in that way build up a library of conductance data.

The Court finds that in order to complete any such library it was necessary for Zentmeyer to go through much

testing and experimentation, which he, in short, did, utilizing such materials as Sperry had in its library.

Under Zentmeyer's direction a successful slotted array antenna for a military radar known as AN/SPS-53 was developed.

From 1960 to 1964, Sperry was developing a series of commercial radar known as the Radar 5, the Radar 10 and the Mark III. When awarded a contract in 1963 for military radar known as the AN/SPS-53, Sperry utilized the knowledge and data accumulated in its commercial radar development. Zentmeyer was assigned the responsibility of developing a slotted array antenna to conform to Coast Guard specifications which set forth the performance standards expected of the array. Zentmeyer, in his efforts to design an antenna for this purpose, utilized the work which he had previously done on slotted array antenna design and development. By the use of calculations, a computer program, the cutting and testing of sections, and the accumulation of data on the characteristics of the slots as heretofore referred to, a slotted array antenna, primarily by Zentmeyer's efforts, was ultimately produced by Sperry which not only met the required specifications but was unique and novel in its over-all performance. The manufacturing drawing which was ultimately produced in this connection was the culmination of Zentmeyer's efforts.

Zentmeyer felt his work had resulted in an array which he described as "simple, efficient and better performance than any known slotted array," and as a consequence in 1963 he filed an invention description sheet with the Sperry Patent Department. His enthusiasm for the results of his work was further described by him at that time as one that "Sperry's competitors are likely to use the idea if they learn the method of determining slot angles for proper phasing."

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In the fall of 1963, Zentmeyer displayed to Dr. Saunders, a radar antenna expert, five antenna patterns which reflected his achievement of very low side lobe levels on a repeating basis.

In the development of a slotted array, the lack of a computer or computer program would make any such development a protracted and tedious chore to arrive at the necessary calculations.

The Sperry array, developed primarily by Zentmeyer while in Sperry's employ, was a valuable property that came about only after a great investment of time, effort and money. The techniques of producing a comparable array to Sperry's were not revealed in the literature on slotted arrays, and could only be determined through the accumulation of slot conductance data based on experimentation and trial and error. Even as late as 1969, data in the literature on slotted array antennae was considered poor.

An essential element of a successful antenna is the development of a design culminating in a manufacturing drawing which permits the machining of the wave guide between the precise values specified by theory and tolerances which allow machine shop production with a minimum of difficulty. The development of tolerances on the dimensions of Sperry's ultimate array required an unusual degree of experimentation.

A tolerance is basically a range within which an actual dimension can differ from the dimension called for on a blueprint or specification and still be acceptable. The objective which the engineer has in mind is to use the loosest possible tolerance which will still do the job. The tighter the tolerances, the more expensive it is to achieve, although sometimes very tight tolerances are necessary to produce

the desired engineering results. On the slotted array antenna, it is critical to stay within the prescribed tolerances. There is an electronic relationship between the tolerances and the performance of the antenna. They affect such performance characteristics as side lobe levels, which are most sensitive to the holding of tolerances. The determination of what tolerances to prescribe is a cut and try process.

The tolerances determined by Zentmeyer, as set down in the manufacturing drawing, were of great value in the hands of any competitor. The tolerances were unusually tight and difficult, and a special tool had to be developed by Sperry's machine shop to meet them.

The slotted array developed by Sperry under Zentmeyer was of particular value to Sperry because it enabled it to successfully manufacture and sell the SPS-53 radar as well as its commercial counterpart, the Mark VI.

That the drawings and prints of the slotted array antenna were considered to be of a highly confidential and proprietary nature is understandable in view of the great deal of time, effort and expenditures made to develop same. That this trade secret of Sperry was of a highly confidential nature was transmitted to all employees connected in any way with the slotted array antenna, and specifically was known to the defendants, Zentmeyer and Tebell.

At the time Zentmeyer and Tebell came into Sperry's employ each signed employment agreements providing that neither would divulge material, confidential to Sperry, to persons outside the company. Both fully understood their obligation in this regard.

Tebell was employed by Sperry as an engineer on August 25, 1958. Following the award of the first Coast Guard contract to Sperry in 1963, he, Tebell, was assigned the position of project engineer on the SPS-53 radar.

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Misappropriation by the individual defendants of confidential and proprietary information.

The information developed by Sperry regarding the manufacture of the slotted array antenna was embodied in a manufacturing drawing introduced in this case as PX-38. That this drawing embodied a trade secret and was of great monetary value both to Sperry and to anyone who wished to compete with Sperry is well established by the evidence.

Referring specifically to Count 1 of the complaint and the misappropriation of the trade secret embodied in the manufacturing process, techniques and data relating to the design, development, manufacture and sale, PX-38 heretofore referred to embodied original data and contained all of the design information necessary to manufacture a slotted array antenna. This drawing was completed prior to Zentmeyer's departure from Sperry. Zentmeyer left the employ of Sperry on March 31, 1964, to become president of ECI. When he left Sperry he knew that ECI intended to compete with Sperry. At the time he left, or immediately prior thereto, with full knowledge that the Sperry slotted array antenna manufacturing drawing was considered by Sperry to be of a confidential nature he, unbeknownst to Sperry, took the Sperry slotted array antenna manufacturing drawing and, in addition thereto, he took much data which would be of use or value to a competitor which belonged to Sperry, including antenna patterns, lab reports, copies of pages of engineering laboratory notebooks, engineering sketches, blueprint drawings, engineering estimates of hours necessary to do certain work, and an antenna and pedestal drawing, a slotted array antenna which he had removed from Sperry during the summer of 1963 and which had been kept under lock and key by Sperry and which

was ultimately used by ECI for purposes of attempting to impress the Coast Guard inspectors, as well as a copy of Sperry's technical proposal to the Coast Guard for the first SPS-53 contract awarded in 1963.

Zentmeyer, while admitting he removed the data heretofore referred to, argues that he received a clearance from his immediate supervisor for the removal of such data.

The Court finds that if, indeed, many of the articles which were introduced during the trial of this case were, in fact, in the cartons cleared by Zentmeyer's supervisor at the time Zentmeyer left Sperry's employ, that he, the supervisor, never intended to acquiesce to the removal of certain of the data. The Court finds that the supervisor, Stobie, did not check the items in the cartons individually, nor in view of Zentmeyer's professional standing would he be expected to make such a check.

This Court finds that Zentmeyer intended at the time of his cessation of work with Sperry to utilize confidential documents to the advantage of ECI and the detriment of Sperry.

The value to ECI of the information removed by Zentmeyer in connection with the slotted array antenna was that when the Coast Guard in 1966 issued invitations for bids for the production of 99 radar sets, ECI, which at the time had no experimental slotted array and had neither cut nor tested a slotted array antenna or produced any antenna, was in a position by virtue of utilizing the property of Sperry to submit a bid in competition with Sperry. The value to the corporate defendant of the materials and data specifically misappropriated by Zentmeyer, coupled with Tebell's actions in the conspiracy which the Court finds existed between them, in securing for ECI a manual which will be hereafter referred to, as well as securing from one

Burford, a Sperry employee, the slot width dimension revisions as well as tolerances which had been changed since the time Zentmeyer and Tebell worked with Sperry, represented a monetary advantage, an unjust and immoral advantage, of $175,000.00, for the Court finds that the securing of the information utilized by the defendants, if prepared without access to the confidential documents of Sperry, would have been a protracted and tedious chore, particularly so for a small company without previous experience in the field. In short, the defendants appropriated Sperry's efforts and work-product which were considered novel and proprietary, and as a consequence were in a position to manufacture a slotted array antenna to Coast Guard specifications as required under the invitation for bidding, without the expenditure of research and development effort.

The Court finds that the corporate defendant's drawing of their suggested slotted array antenna, PX-91, was generated with direct reference to Sperry material.

The Coast Guard's invitation for bids for 90 AN/SPS-53 radars made in the summer of 1966.

During the summer of 1966, at a time when Tebell was still a Sperry employee, Zentmeyer and he met and at Zentmeyer's request Tebell turned over to Zentmeyer for his use at ECI a copy of Sperry's technical manual for the SPS-53 radar. This manual contained detailed drawings and parts listed for the Sperry radar. It contained information not generally available to the public. It was understood by Tebell to be property of Sperry which they did not wish to be turned over to a competitor as same would give a competitor an advantage over Sperry and would be

helpful to anyone in preparing a bid, and specifically would be helpful to ECI for that purpose.

The Court finds that the individual defendants entered into a conspiracy in the summer of 1966 for ECI to secure certain proprietary and confidential information for use in a bid to be made by ECI in the procuring of a contract for the SPS-53 radars which the Coast Guard had invited.

The manual which Tebell turned over to Zentmeyer, the Court finds, was utilized, and intended by them to be utilized, to the end that ECI could maintain secrecy in connection with their intention to bid pursuant to the Coast Guard's invitation for bids for 90 SPS-53 radars. The manual that Tebell had turned over to ECI made it possible and was turned over for the purpose of ECI foregoing the need for viewing a similar manual at the Coast Guard facilities, the practice being that prospective bidders, while not permitted to copy the manual, were permitted to inspect same at the Coast Guard facility, but in connection therewith were required to sign a document which registered the names of all who viewed the equipment which was kept there or the manual.

The Court finds that Sperry, who also bid on the contract, had been alert to the possibility of a small company, and in particular ECI, bidding on said contract, and except for the improper conspiratorial conduct on the part of the individual defendants, would have been forewarned that ECI was, in fact, considering the making of a bid. As a consequence thereof, Sperry was put in a position of not bidding lower than they ultimately did, which the Court finds they would have done had they known that ECI was going to bid or was in fact considering making a bid.

It was at the time of this invitation to bid in 1966 that ECI was unjustly enriched by virtue of having in their

possession the materials and data misappropriated by Zentmeyer in reference to the slotted array antenna. Not only was ECI enriched as a consequence, but the use of the materials directly damaged the plaintiff, for the use of those materials coupled with the Court's finding that Tebell, pursuant to the conspiracy existing between him and Zentmeyer, conveyed to Zentmeyer information regarding Sperry's proposed bid figure, making it possible for ECI to, as they did, submit a lower bid.

While much testimony was taken concerning the manner in which ECI prepared its bid and proposal to the Coast Guard, the Court finds that ECI could not have prepared the necessary proposal to the Coast Guard between the time in which they alleged they commenced to work thereon and the time the bid was made had they not utilized the work product of Sperry, including information concerning Sperry's bid price.

The Court rejects as unworthy of belief the testimony of the individually named defendants as to the source of various dimensions required to prepare the ECI antenna drawings as well as their respective denials concerning their securing of information as to Sperry's bid price.

On the day the bids were submitted to the Coast Guard, that is September 6, 1966, ECI submitted a bid of $889,156, which was $6,420 lower than Sperry's bid of $895,576. It is interesting to note that, within a matter of hours prior to ECI submitting its bid, its tentative bid was reduced by more than $350,000, which the Court finds was done for the purpose of underbidding a bid to be made by Sperry in an amount known to the defendant, Zentmeyer, by reason of a conspiracy existing between him and the defendant, Tebell.

The Court finds that this contract was the largest on which ECI had up until that time ever bid and, in addition,

it was their first bid in connection with radar work. The preparation of ECI's bid was made over an unreasonably short period of time and what work was done on the preparation of the bid was done with the use of the Sperry manual heretofore referred to.

While the Court accepts as factual the testimony dealing with the conduct of the Executive Committee of ECI, to the end that they felt it important that ECI secure the bid, and while the Court finds no evidence to indicate that the Committee as a whole, or individual members thereof with the exception of Zentmeyer, knew of ECI's access to the confidential bid price of Sperry, the Court does not accept as factual the explanation of the preparation of the ECI bid as enunciated by the witnesses called by the defendants in connection therewith.

The Court finds that Sperry and ECI submitted the lowest bids to the Coast Guard, and had it not been for the misconduct of the defendants Sperry would have secured the contract, but by reason of the defendants' misconduct ECI was awarded the contract resulting in a substantial loss to Sperry, not only of the profits which would have been made thereon, but as a consequence of the loss of the contract Sperry was forced to discontinue its commercial Mark VI program, for it become economically unfeasible under the circumstances to continue the manufacturing of Mark VI radars for commercial use.

Shortly after the award of the contract by the Coast Guard to ECI Tebell left the employ of Sperry and commenced work with ECI.

The Court finds Zentmeyer's net worth to be in excess of $750,000, and while no specific figures were given in reference to the corporate defendant, the representations by all counsel lead the Court to the conclusion that the now corporate defendant is a company of much substance.

The Court finds that the loss to Sperry, taking into consideration the cost and expense incurred by them, as well as the loss of profits on spare parts and equipment sales which they would have received but for the defendants' misconduct, amounted to $231,012.00.

Sperry contends that in addition to the direct loss aforementioned they had projected a sale of 55 Mark VI commercial radar sets per year over a period of five years, which would have represented a direct profit of $82,500 per year, plus a profit on spare parts in the amount of $9,231 per year. The Court finds this claim, however, to be of a speculative nature and, as a consequence, is not in a position to assess any damages in connection with the alleged loss.

The Court finds the conduct of the defendants to have been calculated, deliberate and of such a nature that it warrants the assessment of punitive damages as well as the assessment of reasonable attorneys' fees.

The Court finds that while the conduct of the individually named defendants was reprehensible, the primary person upon whom responsibility should rest in connection with punitive damages is the defendant, Zentmeyer. The Court find that it was his conduct which commenced the chain of circumstances leading to the ultimate damage.

It has been represented, and the Court accepts as factual, that the attorneys for the plaintiff have expended approximately 10,000 man-hours in the preparation of the trial of this case. The case was exceptionally well prepared and tried by all counsel. The diligence required in the preparation of the case is perhaps best exemplified by the fact that depositions of approximately 10,000 pages were taken. The lawyers on both sides are outstandingly qualified,

and as a consequence thereof the matter was bitterly contested. The Court finds, therefore, that a reasonable sum by way of attorneys' fees to be assessed against the defendants is $225,000; that punitive damages against the defendant, Zentmeyer, and the corporate defendant, should be assessed in the amount of $175,000, and against the defendant, Tebell, in the sum of $10,000.

Based upon the foregoing findings of fact, the Court's legal conclusions are as follows:

The defendant, Zentmeyer, violated his duty of loyalty, fidelity and responsibility to his employer by removing documents and material of a confidential and secret nature from the plaintiff's plant and transmitting same to the corporate defendants and used by the corporate defendants to their unjust enrichment and damage to the plaintiff;

That the named defendants engaged in unfair competition with plaintiff by engaging in the conspiracy referred to in the Court's finding of fact;

That the defendant, Tebell, violated his duty of loyalty, fidelity and responsibility to his employer by making available to the defendant, Zentmeyer, individually and acting as President of Electronic Concepts, Incorporated, certain documents and material of plaintiff of a confidential and secret nature, and by conveying plaintiff's confidential bidding information;

Each of the individually named defendants breached their respective employment agreements with the plaintiff;

The acts of the defendants were willful and deliberate and were committed with the knowledge that they were unlawful and were calculated to result in substantial harm to the plaintiff. See *Sperry Rand Corp.* v. *Rothlein*, 241 F. Supp. 549 (D. Conn. 1964);

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The facts and circumstances of this case render it an appropriate one in which punitive damages should be assessed. Punitive damages have a two-fold purpose: (1) to indemnify a plaintiff for the loss sustained, and (2) to prevent similar actions on the part of the responsible party and others in the future. See *Stevens* v. *Abbott, Proctor and Paine*, 288 F. Supp. 836 (E. D. Va. 1968); see also, *Willis* v. *Miller*, 29 F. 238, 244 (4th Cir. 1886);

While the general rule is that a prevailing party in an action is not entitled to counsel fees, *Fleischmann Corp.* v. *Maier Brewing Co.*, 386 U. S. 714 (1967), and while this rule is supported by overwhelming authority, there are exceptions not the least of which encompass those extraordinary cases involving oppressive, vexatious conduct, and those cases in which the federal courts have authority as a part of their historic equity jurisdiction to award counsel fees. See *Local No. 149* v. *American Brake Shoe Co.*, 298 F. 2d 212 (4th Cir. 1962). In view of the finding by the Court of clear, cogent and convincing evidence of the oppressive and bad faith conduct of the defendants, and the individually named defendants having so blatantly violated their duty, fidelity and loyalty to the plaintiff, justice could not be served without the award of counsel fees;

The conduct of the individual defendants is imputed to the corporate defendant, ECI. The unauthorized use of confidential information was a violation of plaintiff's rights resulting in an unjust enrichment of the corporate defendant at the expense of the plaintiff, which equity will not permit to go unnoticed and for which the defendants are liable in damages. See *Reynolds* v. *Whitin*, 167 F. 2d 78 (4th Cir. 1958); *Servo Corp. of America* v. *General Electric Co.*, 337 F. 2d 716 (4th Cir. 1964), cert. den. 383 U. S. 934, re-hear. den. 384 U. S. 914; see also, *Colgate*

Palmolive v. *Carter Products, Inc.*, 230 F. 2d 855 (4th Cir. 1956);

While the data taken by Zentmeyer in connection with Sperry's slotted array antenna may have been an accumulation to some extent of information available and in use in the trade and as a consequence not patentable, novelty in the sense used in patent law is not a requirement of a trade secret. See *A. O. Smith Corp.* v. *Petroleum Iron Works Co.*, 73 F. 2d 531 (6th Cir. 1934);

The essence of a claim of the nature of this cause is the breach of confidence and breach of good faith as exhibited by the individually named defendants. The instant plaintiff is entitled to protection against such a breach of good faith and the reprehensible means utilized in the exploitation by the defendants of the plaintiff's confidential information and trade secrets. See *W. R. Grace & Co.* v. *Hargadine*, 392 F. 2d 9 (6th Cir. 1968); see also, *Reynolds* v. *Whitin, supra.* Under the facts of the instant case, the moralities are completely with the plaintiff corporation. The plaintiff is entitled to its exclusive trade secrets until such time as competitors duplicate same by legitimate independent research, which the Court finds would have taken the defendants a period of two years. See *Water Services, Inc.* v. *Tesco Chemical, Inc.*, 410 F. 2d 163 (5(th) Cir. 1969);

The plaintiffs are entitled to actual damages, including the recovery of lost profits. See *Reynolds* v. *Whitin, supra; International Industries* v. *Warren Petroleum Co.*, 248 F. 2d 696 (3rd Cir. 1957).

Plaintiffs are entitled to an injunction against the defendants, and each of them acting individually or in concert with others in the manufacture or sale of a slotted array type antenna in connection with any radar device, for a period of two years from the date of this memorandum.

The Court will reserve unto the defendants, in its equity jurisdiction, leave to apply to the Court for a modification of any such injunction in connection herewith to the end that innocent parties with whom they may have contracted will not be harmed. See *Colgate Palmolive* v. *Carter Products, Inc., supra; W. R. Grace* v. *Hargadine, supra.*

Conclusion

Judgment for compensatory damages which include attorneys fees will be entered in favor of the plaintiff against the defendants in the sum of $631,012, and, in addition, judgment for punitive damages against the defendants Zentmeyer and ATO, Inc., as successors to Electronic Concepts, Inc., in the sum of $175,000, and against the defendant, Tebell, in the sum of $10,000, for a total judgment of $816,012.

In addition thereto, an injunction in accord with this memorandum will be entered.

/s/ Robert R. Merhige, Jr.
United States District Judge

October 15, 1970.

Appendix A

IN THE

UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF VIRGINIA

CHARLOTTESVILLE DIVISION

SPERRY RAND CORPORATION, a Delaware corporation v. ELECTRONIC CONCEPTS, INCORPORATED, a Virginia corporation, JOHN E. ZENTMEYER, JR., and GUS K. TEBELL, JR.	Formerly RICHMOND CIVIL ACTION No. 5241 Now Charlottesville CIVIL ACTION No.

JUDGMENT ORDER

For the reasons stated in the memorandum of the Court this day filed, and deeming it proper so to do, it is ADJUDGED, ORDERED and DECREED that the plaintiff recover of the defendants judgment in the amount of EIGHT HUNDRED SIXTEEN THOUSAND AND TWELVE ($816,012.00) DOLLARS, consisting of compensatory damages, including attorneys' fees, in the amount of SIX HUNDRED THIRTY-ONE THOUSAND AND TWELVE ($631,012.00) DOLLARS assessed against all of the defendants, including ATO, Incorporated, successors to Electronics Concepts, Incorporated, as well as punitive damages assessed against the defendants Zentmeyer and ATO, Incorporated, successors to Electronic Concepts, Incorporated, in the sum of ONE HUNDRED SEVENTY-FIVE THOUSAND ($175,000.00) DOLLARS, and punitive damages assessed against the defend-

ant, Tebell, in the sum of TEN THOUSAND ($10,000.00) DOLLARS. Interest at the rate of six percent (6%) per annum shall be assessed from this day until said total judgment is paid. In addition thereto plaintiff shall recover its taxable costs.

The Court further ADJUDGES and DECREES that the defendants, John E. Zentmeyer, Jr., Gus K. Tebell, Jr., and all others acting in concert with them be, and they are hereby restrained and enjoined from the manufacture or sale of a slotted array type antenna in connection with any radar device. Said injunction in this regard shall remain in full force and effect for a period of two years from this date unless sooner modified, enlarged or vacated.

In addition thereto, the defendants, and each of them, and all acting in concert with them, be, and they are hereby, enjoined to desist and refrain from using, or revealing to others, or aiding others in the use of, or in any way imparting to others knowledge of the contents those documents, materials and data removed by the said individually named defendants from the possession of the plaintiff herein; and said defendants and all acting in concert therewith be, and they are hereby, mandatorily enjoined to return to the possession, custody and control of the plaintiff any such documents, data, material or products which may now be in their possession, or under their control.

Let the Clerk send copies of this judgment order and memorandum to all counsel of record.

/s/ ROBERT R. MERHIGE, JR.
United States District Judge

October 15, 1970.

Appendix B

UNITED STATES COURT OF APPEALS

FOR THE FOURTH CIRCUIT

No. 71-1053

SPERRY RAND CORPORATION, a Delaware corporation,
Appellee,

versus

A-T-O, INC. (Formerly "AUTOMATIC SPRINKLER CORPORATION OF AMERICA"), ELECTRONIC CONCEPTS, INC., JOHN E. ZENTMEYER, JR. And GUS K. TEBELL, JR.,
Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA, AT RICHMOND. ROBERT R. MERHIGE, DISTRICT JUDGE.

(Argued June 10, 1971 Decided September 7, 1971.)

Before HAYNSWORTH, Chief Judge, and WINTER and RUSSELL, Circuit Judges.

George S. Leonard (Leonard, Clammer and Flues; Lloyd T Smith, Jr., Tremblay, Colmer and Smith, on brief) for Appellants, and John S. McGeeney (Francis J. McNamara, Jr., Ridgway M. Hall, Jr., and Cummings and Lockwood; and Lewis T. Booker, Hunton, Williams, Gay, Powell and Gibson, on brief) for Appellee.

Appendix B

WINTER, Circuit Judge:

Sperry Rand Corporation ("Sperry Rand"), invoking the diversity jurisdiction of the district court, sought damages and injunctive relief against Electronic Concepts, Inc. ("ECI"), John E. Zentmeyer, Jr. ("Zentmeyer"), a former employee of Sperry Rand and later president of ECI, and Gus K. Tebell ("Tebell"), also a former employee of Sperry Rand and later an employee of ECI.[1] As a first cause of action, Sperry Rand alleged a misappropriation by defendants of Sperry Rand's confidential manufacturing data, designs and drawings for a slotted array antenna and their use to compete with Sperry Rand; and as a second cause of action, it alleged a misappropriation by defendants of Sperry Rand's confidential bid pricing information in connection with a United States Coast Guard radar contract and the use of this information and other data wrongfully obtained from Sperry Rand to underbid Sperry Rand on the contract. The district judge found liability on the part of defendants under both of Sperry Rand's causes of action, and he awarded compensatory damages, punitive damages and injunctive relief. We agree with his conclusions as to liability and injunctive relief, but we find error in the calculation of the money damages. We will, therefore, vacate the judgment as to the damages awarded and remand the case for reassessment of damages in accordance with our views.

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[1]Following institution of the suit, Automatic Sprinkler Corporation of America purchased the assets of ECI and assumed its liabilities, including its liability, if any, by reason of this suit. ECI was thereafter dissolved. The name of Automatic Sprinkler Corporation of America was changed, in October, 1969, to A-T-O, Inc. By agreement of the parties, A-T-O, Inc. was made a party to this suit. Although A-T-O, Inc. will be liable for any liability on the part of ECI, in this opinion only the designation ECI will be used for the corporate defendants.

Appendix B

—I—

The judgment appealed from was arrived at after a protracted trial, and the district judge commendably made extensive findings of fact, including resolutions of credibility in the many areas in which the testimony was in conflict, as well as summaries of the evidence, not only to support his conclusions as to liability but also to support his conclusions as to damages and injunctive relief.[2] As the case comes to us, defendants' argument with regard to liability is exclusively factual. We have examined the voluminous record in great detail and conclude that, as to liability, this is a classic case for affirmance under the mandate of Rule 52(a) *F. R. Civ. P.* that "[f]indings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." We could add nothing to legal literature by a detailed statement of why the district judge's findings with respect to liability are not clearly erroneous and must be affirmed. It suffices to say that with respect to misappropriation of trade and proprietary secrets there was ample evidence, accepting as we must the district judge's credibility determinations, to prove the following:

Zentmeyer, a graduate engineer, was employed by Sperry Rand in 1959, and Tebell, also a graduate engineer, was engaged at about the same time. Upon being hired, each signed an agreement providing:

> I will not, either during or subsequent to the term of my employment, directly or indirectly divulge to unauthorized persons any information des-

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[2] *Sperry Rand Corporation* v. *Electronic Concepts, Inc.*, 325 F. S. 1209 (E. D. Va. 1970).

> ignated as top secret, secret, or confidential by the Company . . . and not known to the general public or recognized as standard practice, whether acquired or developed by me in the course of my employment or obtained from other employees. . . .

At that time Sperry Rand and others were seeking to devise a radar antenna less bulky and more efficient than the parabolic reflector and pillbox type antennae then being manufactured and used. At the time of his employment Zentmeyer had no special expertise in the area of slotted array antennae, but he played an important role in the research leading to the development of the device. He directed much testing and experimentation and accumulated a substantial body of data. These data were used in the period 1960 to 1964 to develop commercial radar and, beginning in 1963, to design and manufacture a slotted array antenna under a Coast Guard contract which set forth the performance standards for the antenna but left to the manufacturer the task of developing a design to meet these standards. Sperry Rand was awarded the Coast Guard contract and the radar manufactured thereunder was known as the SPS-53. Tebell was assigned to the position of project engineer on this contract. Zentmeyer was so enthusiastic about fulfillment of the Coast Guard specifications and so confident that he had made new discoveries that he filed an invention description sheet with the Sperry Rand patent department. The patent department concluded, however, that because of disclosures in the prior art, the newly developed antenna array was not patentable. As found by the district judge, the Sperry Rand antenna array, developed primarily by Zentmeyer while he was in Sperry Rand's employ, was a valuable property that came about only after a great invest-

ment of time, effort and money and that the drawings and manufacturing data, techniques and processes constituted a trade secret of great monetary value. The district judge's findings were certainly not clearly erroneous in view of the evidence of the difficulty of developing, designing and providing a workable slotted array antenna and the fact that the finished product was original, theretofore unknown in the industry, and an advance in the field. See *Servo Corp.* v. *General Electric,* 393 F. 2d 551 (4 Cir. 1968).

Zentmeyer left Sperry Rand's employ in 1964 to become president of ECI, knowing that ECI, which until then had made neither radar nor radar antennae, intended to compete with Sperry Rand in the field. Admittedly, he took with him much data, including antenna patterns, laboratory reports, copies of pages of engineering laboratory notebooks, engineering sketches, blueprint drawings, engineering estimates of hours necessary to do certain work, an antenna and pedestal drawing, a slotted array antenna, and a copy of Sperry Rand's technical proposal for its 1963 Coast Guard contract. Although Zentmeyer claimed that he had the permission of his former superior to remove this valuable data, the district judge's credibility determination that he did not is amply supported.

With regard to the misappropriation of confidential bid pricing information, the record supports the findings that in 1966, when Tebell was still a Sperry Rand employee, he turned over to Zentmeyer, for his use at ECI, a copy of Sperry Rand's technical manual for the Coast Guard SPS-53 radar. The manual contained detailed drawings and parts listed for the radar and this information was not generally available to the public. At the time the Coast Guard was inviting bids for ninety additional SPS-53 radars, and Tebell and Zentmeyer intended that ECI would use the knowledge contained therein to bid on the Coast

Guard contract. In fact, ECI did use that manual and the other data which Zentmeyer had misappropriated from Sperry Rand in preparing a bid.

In addition, Zentmeyer and Tebell conspired for Tebell to supply Zentmeyer with information in regard to the price which Sperry Rand would bid on the Coast Guard contract so as to enable ECI to underbid Sperry Rand. Tebell furnished ECI with Sperry Rand's proposed bid price, and ECI underbid Sperry Rand by $6,420.00, ECI submitting a bid of $889,156.00, and Sperry Rand submitting a bid of $895,576.00.

Concluding that the facts as found have ample record support and that these facts inescapably lead to the legal conclusions that proprietary and secret data were misappropriated and that confidential bidding information and data were also misappropriated, all to the detriment of Sperry Rand, we turn to the injunctive and monetary relief granted by the district judge.

—II—

A.

We deal, first, with injunctive relief. The district judge enjoined Zentmeyer, Tebell and all others acting in concert with them, from the manufacture or sale of a slotted array antenna in connection with any radar device for a period of two years.[8] The district judge also enjoined the defendants and others acting in concert with them from

[8]In his formal judgment the district judge reserved the power to modify, enlarge or vacate this aspect of the judgment during the two-year period. This reservation was to implement the statement in his opinion that the defendants would be granted leave to apply to the court for a modification of the injunction "to the end that innocent parties with whom they may have contracted will not be harmed."

using, revealing to others or aiding others in the use of the knowledge of, the contents of the documents, materials and data which had been misappropriated, and directed that all such documents, data, material or products in the possession of the defendants or under their control be returned to Sperry Rand.

Except to argue that no relief should have been granted because no liability was established, defendants make no special point with regard to injunctive relief. Our view is that the district judge fashioned appropriate relief. He required the return of the misappropriated material, and he restrained the manufacture or sale of a slotted array type antenna for a period of two years. An order to return stolen property cannot be faulted. There was evidence that a small firm would require a period of four or five years to develop the misappropriated data and this evidence, together with evidence of the time consumed by Sperry Rand in developing the misappropriated data, shows that the two year restriction on the manufacture and sale of a slotted array type antenna was not unreasonable or did not constitute an abuse of discretion in fashioning equitable relief.

B.

The district judge awarded the following substantial damages:

$631,012.00—compensatory damages, including attorneys' fees—awarded against all defendants.

$175,000.00—punitive damages—awarded against Zentmeyer and ECI.

$ 10,000.00—punitive damages—awarded against Tebell.

$816,012.00—total damages awarded to Sperry Rand.

The opinion of the district court discloses that the $631,012.00 item of compensatory damages was arrived at as follows:

$175,000.00—value to ECI of misappropriated documents, materials and data, excluding bidding data and the manual used in preparing ECI's bid.

$231,012.00—loss of profit to Sperry Rand as a result of being underbid on the Coast Guard contract.

$225,000.00—attorneys' fees.

$631,012.00—total compensatory damages including attorneys' fees.

We find error in the assessment of damages.

We consider, first, the allowance of $175,000.00 as the value to ECI of the misappropriated items. There are two basic methods for assessing damages for misappropriation of trade secrets: one, the damages sustained by the victim (the traditional common law remedy), and the other, the profits earned by the wrongdoer by the use of the misappropriated material (an equitable remedy which treats the wrongdoer as trustee *ex maleficio* for the victim of the wrongdoer's gains from his wrongdoing). R. Ellis, *Trade Secrets* § 286 (1953); Restatement of the Law of Torts §§ 746 and 747 (1938); R. Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 59.3 (1965). Ordinarily a plaintiff may recover either, but not both, because to allow both would permit double recovery. Ellis, *supra*, § 287; Restatement, *supra*, § 747(c); *Harley & Lund Corp.* v. *Murray Rubber Co.*, 31 F. 2d 932 (2 Cir. 1929),

cert. den., 279 U. S. 872 (1929); *Consolidated Boiler Corp.* v. *Bogue Elec. Co.*, 141 N. J. Eq. 550, 58 A. 2d 759 (1949). Since the objective in allowing damages is to compensate the plaintiff for the difference in his position before and after the misappropriation of his secret, his probable loss may be the more significant measuring rod than the misappropriator's actual gain. Callman, *supra*, § 59.3 at 497.

Plaintiff argues that the $175,000.00 was properly allowed under the "comparison of cost method" of assessing damages employed in *International Industries* v. *Warren Petroleum Corp.*, 248 F. 2d 693 (3 Cir. 1957), *appeal dismissed*, 355 U. S. 943 (1958). In that case defendant was a manufacturer and shipper of liquified petroleum gas who misappropriated a plan for shipment by waterways which enabled it to cut shipment costs. The court allowed plaintiff to recover the savings defendant obtained in shipping over the method it had previously used, but a close reading of the opinion discloses that the "comparison of cost method" was used to determine the wrongdoer's profits. Indeed, the court remarked at one point that "the *profits* are simply measured by the *savings*." (Emphasis supplied.) 248 F. 2d at 702. *Gordon Farm Lathe Co.* v. *Ford Motor Co.*, 133 F. 2d 487 (6 Cir. 1943), aff'd. memo by an equally divided court, 320 U. S. 714 (1943), not cited by the parties but relied on in *International Industries* was a patent infringement case where the "comparison of cost method" of assessing damages was also employed but the opinion makes even clearer than *International Industries* the fact that this method was employed to ascertain the infringer's *profits*. 133 F. 2d 492, 494 and 497.

Even if we assume that ECI saved $175,000.00 in research and development costs by using the misappropriated materials and thereby increased its profits by a like amount,

it follows that Sperry Rand may not, under the authorities cited, recover both its damages from loss of the Coast Guard contract and ECI's profits derived therefrom because to allow both would be to allow double recovery. And we think that damages to Sperry Rand is the more appropriate measure of recovery than ECI's profits. ECI successfully used the misappropriated data in a single transaction, and it is being required to return the misappropriated material and is being enjoined from unfair competition with Sperry Rand for two years. There is thus no need for further equitable relief when Sperry Rand can prove legal damages in a greater amount.

Double recovery for Sperry Rand cannot be justified on the theory that defendants committed two separate acts giving rise to liability on their part, i. e., misappropriation of general proprietary secrets and misappropriation of bidding data and bidding price. Under the facts of this case, both of these objects of misappropriation were used in combination to inflict a single specific wrong, i. e., underbidding Sperry Rand and depriving it of the Coast Guard contract which it would otherwise have been awarded. Thus, the item of $175,000.00 must be disallowed.

In regard to $231,012.00 awarded for loss of profit to Sperry Rand as a result of losing the Coast Guard contract, we think the amount awarded was proper. Sperry Rand offered evidence that its profit alone (in the strict economic sense) on the contract, had it received the award, would have been $95,955.00, and that if it had gained the contract it would have also recovered fixed overhead costs of $78,592.00, and material overhead costs of $10,264.00.[4]

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4. In a trade secret case the general rule is that a successful plaintiff may recover loss of profits for misappropriation of his secret, but "profit" includes certain fixed overhead costs. Restatement

Additionally, there was evidence that Sperry Rand could reasonably have expected a 25% follow-on spares order to supplement the basic contract and, after computing the expected revenues and estimated costs derived from the follow-on spares order that it would have realized, additional profit of $23,989.00, recovery of additional general and administrative expenses of $19,648.00 and material overhead of $2,564.00. These six items total $231,012.00.[5] Thus, we find support for allowance of this total item.

We conclude that the allowance of $225,000.00 for attorneys' fees was error. "[I]n an ordinary diversity case where the state law does not run counter to a valid federal statute or rule of court, and usually it will not, state law denying the right to attorney's fees or giving a right thereto, which reflects a substantial policy of the state, should be followed." (footnotes eliminated.) 6 Moore's *Federal Practice* ¶ 54.77[2] at 1354 (1965).[6] As we view Virginia law, it would not support the allowance of counsel fees here. The Virginia rule is that "[e]xcept in rare instances, the power of a court to require one party to contribute to the fees of counsel of another party must be confined to

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of Torts § 748 (1938), comment i; *American Electronics, Inc.* v. *Neptune Meter Co.*, 30 App. Div. 2d 117, 290 N. Y. S. 2d 333 (1968); *Carter Products, Inc.* v. *Colgate-Palmolive Co.*, 214 F. S. 383, 400-403 (D. Md. 1963). *Cf. Century Distilling Co.* v. *Continental Distilling Corp.*, 205 F. 2d 140, 147 (3 Cir. 1953) (patent case).

5. Sperry Rand also claimed that had it been awarded the Coast Guard contract its sales of commercial radars over "at least" a five-year period would have been greatly increased. Evidence was presented that these profits would have been $82,500.00 per year, totalling profits of $628,030.10 from this source. The district judge disallowed this item of damages as too speculative, and Sperry Rand has not appealed.

6. On the other issues in this case, the parties have not referred us to Virginia law. Consequently, general common law has been applied. See *Kellogg Co.* v. *National Biscuit Co.*, 305 U. S. 111 at 111 n. 1 (1938); *International Industries* v. *Warren Petroleum Corp.*, 248 F. 2d 696 (3 Cir. 1957), appeal dismissed, 355 U. S. 943 (1958).

cases where the plaintiff, suing in behalf of himself and others of the same class, discovers or creates a fund which inures to the common benefit of all . . ." *McCormick* v. *Elsea*, 107 Va. 472, 475, 59 S. E. 411 (1907), quoted with approval in *Norris* v. *Barbour*, 188 Va. 723, 51 S. E. 2d 334, 342 (1949).

Aside from "fund" theory cases, Virginia apparently allows counsel fees only when incurred in obtaining release from false imprisonment or in defending against a malicious prosecution, and even then only if it is shown that the tort was committed wantonly or maliciously. *Kemp* v. *Miller*, 166 Va. 661, 680, 186 S. E. 99, 106 (1936) (dictum); *Bolton* v. *Vellines*, 94 Va. 393, 26 S. E. 847 (1897); *Burruss* v. *Hines*, 94 Va. 413, 26 S. E. 875 (1897). We think that Virginia would treat this case within the general rule denying counsel fees and not within one of the exceptions.

The award of punitive damages and the amounts of the award seem proper. The district judge found that the acts of Zentmeyer and Tebell, which inured to the benefit of ECI, and were imputed to it, were "calculated," "deliberate," and "reprehensive," that Zentmeyer and Tebell were both guilty of serious breaches of loyalty, fidelity and responsibility to Sperry Rand and that "[t]he acts of the defendants were wilful and deliberate and were committed with the knowledge that they were unlawful and were calculated to result in substantial harm to the plaintiff." On this record we cannot say that these findings were clearly erroneous. There was also evidence that Zentmeyer's net worth was in excess of $750,000.00 and that ECI was a company of undisclosed worth but of "much substance." There was no finding as to Tebell's net worth, but the award of punitive damages against him was relatively nom-

inal. It, therefore, appears that while the total punitive damages assessed were substantial they were not excessive under all of the circumstances. We do not, therefore, find any abuse of the discretion lodged in the district judge to make the award. *Day* v. *Woodworth*, 13 How. 363, 371 (1851); *Kaufman* v. *Abramson*, 363 F. 2d 865 (4 Cir. 1966) (applying the law of Virginia.) *Cf. American Safety Table Co.* v. *Schreiber*, 415 F. 2d 373 (2 Cir. 1969).

Defendants' only attack on the award of punitive damages is grounded upon the dictum in *Coca-Cola Co.* v. *Dixi-Cola Laboratories, Inc.*, 155 F. 2d 59 (4 Cir. 1946), that a court of equity may not award punitive damages without express statutory authority. In *Coca-Cola*, we held that, in an action for an injunction restraining infringement of a trademark and an accounting for alleged profits realized from the infringement, it was proper for the special master not to allow punitive damages where the plaintiff was unable to prove any actual loss. We then added the dictum that, in the absence of statute, an equity court is without power to assess exemplary or punitive damages and that Rule 2, *F.R. Civ. P.*, providing for a single form of action in federal courts, did not "alter this situation." 155 F. 2d at 63.

Even if we assume that this dictum has not been displaced by *Ross* v. *Bernhard*, 396 U. S. 531, 539-540 (1970), ("[u]nder the Rules there is only one action—a 'civil action'—in which all claims may be joined and all remedies are available"), the fact is that Sperry Rand's complaint alleged both legal and equitable causes of action and contained a prayer for both injunction and damages, and the legal cause of action was found meritorious. They were not an adjunct or consequence of the right to equitable relief. We, therefore, find *Coca-Cola* inapposite.

To summarize with respect to damages, we conclude that $400,000.00 of the award against all defendants should not have been granted. On remand, we will direct that compensatory damages against all defendants be reduced to $231,012.00, with punitive damages of $175,000.00 against Zentmeyer and ECI, and $10,000.00 against Tebell.

III

Finally, we find no merit in defendants' argument that the district judge abused his discretion when he denied defendants the right to amend their pleading to assert their right to recover damages for the defense, earlier pleaded, that Sperry Rand's suit was not brought in good faith but was brought as part of a continuing policy to injure ECI. In any event, the district judge received defendants' evidence by way of defense and found the charge groundless. We agree.

Vacated and Remanded.

Appendix B

JUDGMENT

UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

No. 71-1053

SPERRY RAND CORPORATION, a Delaware corporation,
Appellee,

versus

A-T-O, INC. (Formerly "AUTOMATIC SPRINKLER CORPORATION OF AMERICA"), ELECTRONIC CONCEPTS, INC., JOHN E. ZENTMEYER, JR. And GUS K. TEBELL, JR.,
Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA.

This cause came on to be heard on the record from the United States District Court for the Eastern District of Virginia , and was argued by counsel.

On consideration whereof, It is now here ordered and adjudged by this Court that the judgment of the said District Court appealed from, in this cause, be, and the same is hereby, vacated as to the damages awarded; and the case is remanded to the United States District Court for the Eastern District of Virginia, at Richmond, for assessment of damages in accordance with the opinion of this Court filed herein.

FILED
Sep 7 1971
SAMUEL W. PHILLIPS
Clerk

/s/ SAMUEL W. PHILLIPS
Clerk

Appendix B

UNITED STATES COURT OF APPEALS

FOR THE FOURTH CIRCUIT

No. 71-1053

SPERRY RAND CORPORATION, a Delaware corporation,
Appellee,

versus

A-T-O, INC. (Formerly "AUTOMATIC SPRINKLER CORPORATION OF AMERICA"), ELECTRONIC CONCEPTS, INC., JOHN E. ZENTMEYER, JR. And GUS K. TEBELL, JR.,
Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA, AT RICHMOND.
ROBERT R. MERHIGE, JR., DISTRICT JUDGE.

On Petition for Rehearing.

(Decided April 11, 1972)*

Before HAYNSWORTH, Chief Judge, and WINTER and RUSSELL, Circuit Judges.

George S. Leonard (Leonard, Clammer and Flues; Lloyd T. Smith, Jr., Tremblay, Colmer and Smith, on brief) for Appellants, and John S. McGeeney (Francis J. McNa-

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*This opinion was transmitted to the Clerk's office for filing November 26, 1971. For reasons unexplained, it was never received.

mara, Jr., Ridgway M. Hall, Jr., and Cummings and Lockwood; and Lewis T. Booker, Hunton, Williams, Gay, Powell and Gibson, on brief) for Appellee.

PER CURIAM:

Sperry Rand and ECI have both filed petitions for rehearing. We required the petitions to be answered and, after consideration of the petitions and responses, we have concluded to deny them. We do so, however, without prejudice to Sperry Rand's right to present the facts and matters contained in its petition to the district court, if it be so advised, and without prejudice to the jurisdiction of the district court to grant supplementary relief, equitable or legal, for events transpiring after the evidence in main was closed, if entitlement to such relief be proved.

Succinctly stated, Sperry Rand asserts that after the evidence was closed, ECI obtained an award of another Coast Guard contract for the construction of radar by the use of misappropriated data. It asks us to reinstate the $175,000.00 item of damages we disallowed as duplicating; and, in any event, to permit the district court to eliminate any aspects of double recovery, after evidentiary hearing, rather than for us to fix final judgment on the present record. In answer ECI asserts, *inter alia,* that the district court specifically permitted it to perform the contract to which Sperry Rand refers, and that the district court's allowance of damages which we sustained included an allowance for spares orders which has not been exceeded by the additional contract in question.

Manifestly, this dispute is for the district court. The parties are in disagreement about facts and matters which are largely dehors the record before us. We decline to rein-

state the item of damages that we disallowed or to permit the district court to consider it further. But we do free the parties to litigate questions arising after the trial record was closed, if they wish, and free the district court to grant additional relief if an appropriate case is proved.

ECI's petition for rehearing asks us to reconsider our affirmance of the district court's allowance of punitive damages. Developing more fully an argument adverted to in its original brief and not previously discussed by us, ECI argues that under Virginia law, which is contended to govern, punitive damages should be allowed to punish a wrongdoer and as a deterrent to him and to others, but not as pecuniary compensation for the loss actually sustained by the plaintiff. *Giant of Virginia* v. *Pigg,* 207 Va. 679, 152 S. E. 2d 271 (1967); *Wright* v. *Everett,* 197 Va. 608, 90 S. E. 2d 855 (1956); *Zedd* v. *Jenkins,* 194 Va. 704, 75 S. E. 2d 791 (1953); *Weatherford* v. *Birchett,* 158 Va. 741, 164 S. E. 535 (1932); *Hines* v. *Gravins,* 136 Va. 313, 112 S. E. 869 (1922); *Ramsey* v. *Harrison,* 119 Va. 682, 89 S. E. 977 (1916); and *Norfolk and W. R. Co.* v. *Anderson,* 90 Va. 1, 17 S. E. 757 (1893), are cited in support of the contention. It is said, so the argument runs, that by referring to *Stevens* v. *Abbott, Proctor and Paine,* 288 F. S. 836 (E. D. Va. 1968), as well as by the specific language of its opinion in the instant case, the district court made the allowance here for both punitive and deterrent purposes and to indemnify Sperry Rand for the loss it sustained—the latter an impermissible measure under the law of Virginia.

We do not question that Virginia law applies. And while ordinarily, the Virginia cases, as is the majority view elsewhere, speak of the function of punitive damages as one of punishment to the wrongdoer for his wanton and

malicious conduct and to deter him and others from repeating it, some of the Virginia cases do speak of compensation for loss sustained by the person wronged as a secondary purpose of the allowance of punitive damages. See, *e.g., Giant of Virginia* v. *Pigg, supra; Wright* v. *Everett, supra; Anchor Co.* v. *Adams,* 139 Va. 358 (1924); *Ramsey* v. *Harrison, supra; Peshine* v. *Shepperson,* 58 Va. (17 Gratt) 472 (1867). We, therefore, cannot say that as a matter of law it is impermissible under Virginia law to assess punitive damages at least in part to compensate the person wronged for his pecuniary loss.

In any event, we think that, notwithstanding the language employed in the district court's opinion and its citation of *Stevens,* a fair reading of its opinion inevitably leads to the conclusion that the punitive damages assessed here were intended to punish the defendants rather than to compensate Sperry Rand. Each of Sperry Rand's actual losses was carefully considered and allowance therefor made. The fact that we have found certain allowances were duplicating and must be disallowed does not detract from the thoroughness with which the district court considered the problem. The blatant character of the defendants' misconduct was also considered by the district court with scrupulous care and full and complete findings made, all of which were fully supported. We are thus convinced that punitive damages were assessed solely to punish defendants and to deter them and others from repetitious or like misconduct. As we have earlier decided, the items of punitive damages were not exessive.

MOTION OF ECI DENIED;
MOTION OF SPERRY RAND
DENIED WITHOUT PREJUDICE.

Appendix C

IN THE

UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF VIRGINIA

RICHMOND DIVISION

SPERRY RAND CORPORATION, *v.* ELECTRONIC CONCEPTS, INC., et al.	CIVIL ACTION No. 5241-R

ORDER

In accord with the mandate of the United States Court of Appeals for the Fourth Circuit, and deeming it proper so to do, it is ADJUDGED and ORDERED that the plaintiff herein recover judgment of the defendants herein in the sum of Two Hundred Thirty-one Thousand and Twelve ($231,012.00) Dollars, and an additional sum of One Hundred Seventy-five Thousand ($175,000.00) Dollars as punitive damages against the defendants Zentmeyer and Electronic Concepts, Inc., and the further sum of Ten Thousand ($10,000.00) Dollars as punitive damages against the defendant Tebell. Interest on the aforesaid amounts is also recoverable in favor of the plaintiff at the rate of six percent per annum from October 15, 1970 until paid. Plaintiff shall recover its taxable costs expended.

Deeming it proper so to do, it is further ADJUDGED and ORDERED that the order of this Court dated November 4, 1970, be, and the same is hereby, modified to the extent that the Clerk of this Court is hereby directed to permit the

substitution of a bond in the sum of Five Hundred and Fifty Thousand ($550,000.00) Dollars, to remain on file until the further order of this Court, said substituted bond, if any, shall be under the same terms and conditions as applied to the bond presently filed.

Let the Clerk send a copy of this order to all counsel of record.

/s/ ROBERT R. MERHIGE, JR.
United States District Judge

Date: May 3, 1972